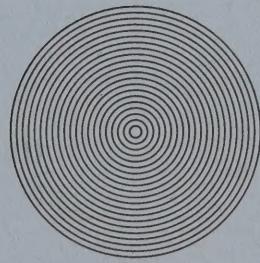


AR27



sound corporation LTD
1975
annual report

CONTENTS

	Page		
		Year Ended December 31, 1975	Five Months Ended December 31, 1974
Financial Highlights	1		
The President's Message	2		
Graphical Presentation	3		
Financial Statements	4		
Financial History	9		
Location Directory	10	\$28,080,899	10,030,444
		735,371	161,302
		7,224,072	5,087,346
		3,023,590	2,342,535
		3,371,004	2,635,633
		.77	.17
		3.53	2.76
		324	291
		321	308
		954,700	954,700

AUDITORS

Peat, Marwick, Mitchell & Co.,
Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT
Yorkshire Trust Co.

EXCHANGE LISTING
Vancouver Stock Exchange

BOARD OF DIRECTORS

JACQUES BARBEAU
Director

DR. A. BOXER
Director

R.L. McQUARRIE
Secretary & Director

ROBERT SCOLNICK
Director

KARL STEIN
Director

B.N. TESSLER
President & Director

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Financial Highlights

	Year Ended December 31, 1975	Five Months Ended December 31, 1974
OPERATING SUMMARY		
Gross Sales	\$28,080,899	10,030,444
Net Earnings	735,371	161,302
FINANCIAL STATUS		
Total Assets	7,224,072	5,087,346
Working Capital	3,023,590	2,342,535
Shareholders' Equity	3,371,004	2,635,633
PER COMMON SHARE		
Net Earnings	.77	.17
Equity	3.53	2.76
STATISTICAL DATA		
Number of Employees	324	291
Number of Shareholders	321	308
Number of Shares	954,700	954,700

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

President's Report

TO THE SHAREHOLDERS

On behalf of the Directors, I am pleased to report that sales and earnings for your Company reached record levels in 1975. This occurred despite the fact that the economic environment continued on the same harsh note as the previous year.

During Kelly Deyong's sixth year as a Public Company, total sales reached \$28,080,899. Sales for the previous fiscal period, which was of only five months duration due to a change in the fiscal year end (August 1, 1974 to December 31, 1974) amounted to \$10,030,444.

Earnings from operations amounted to \$735,371 for the year or \$0.77 per share based on 954,700 shares outstanding. Earnings for the five month period ended December 31, 1974 amounted to \$161,302 or \$0.17 per share.

Your Company now operates a total of 57 Kelly's Stereo Marts across Canada. Of these, 26 are franchised locations and 31 are corporately owned. New locations were opened during the year in the following cities:

Regina, Saskatchewan
Calgary, Alberta
London, Ontario
Peterborough, Ontario
Sudbury, Ontario
Kitchener, Ontario

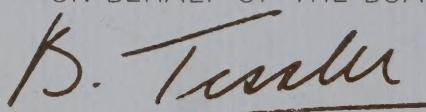
Plans for 1976 consist of expanding the Kelly's Stereo Mart outlets in Ontario and the Maritimes.

Our wholly owned importing and distribution arm, Pro-Sound Distributors Limited, has again shown excellent increases in sales for this period. As exclusive Canadian distributors of Akai, the world renowned line of tape recorders, receivers, amplifiers and speakers, Pro-Sound Distributors Limited has continued to improve penetration of the Canadian market.

On behalf of the Board of Directors, I wish to extend thanks to all our customers and staff for providing their support to make 1975 a most successful year.

Looking ahead, we confidently project continuing growth in sales and earnings.

ON BEHALF OF THE BOARD



B.N. TESSLER, President

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries



Graphical Presentation

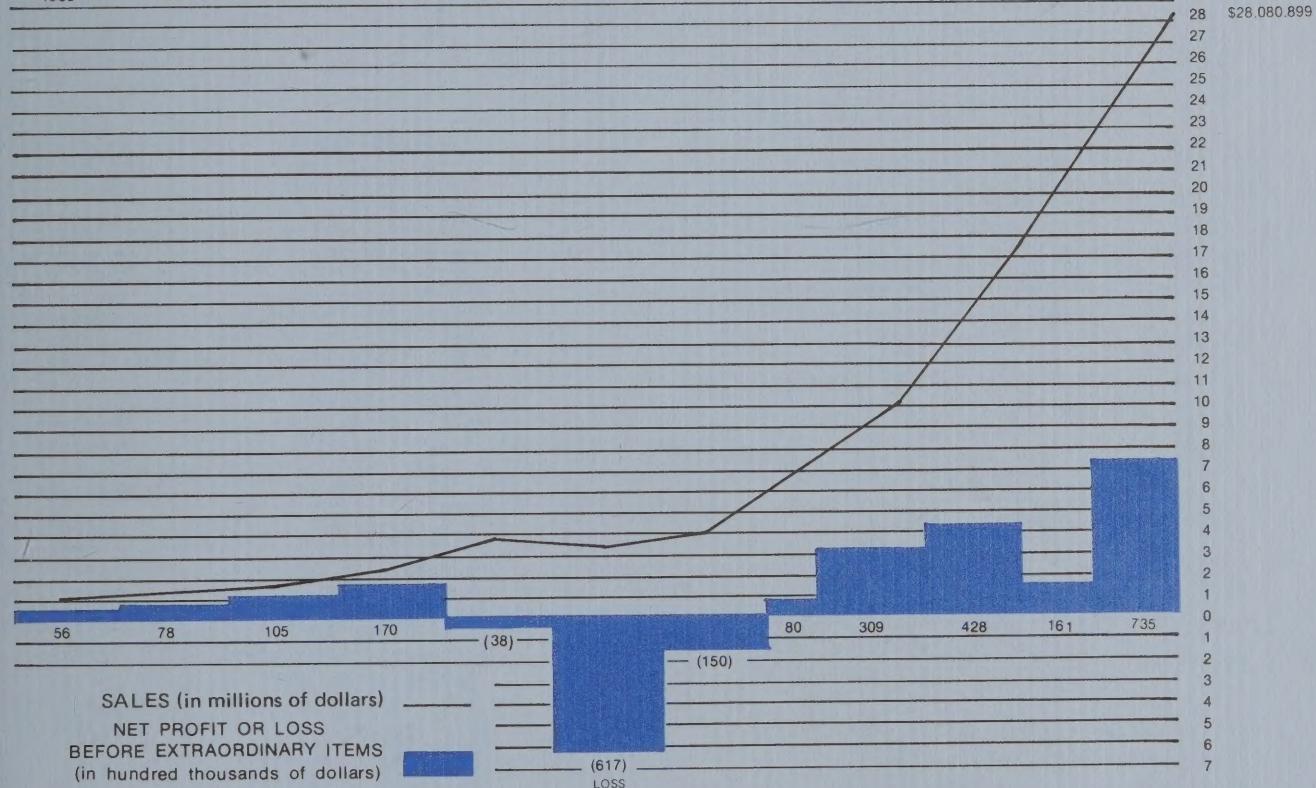
YEAR ENDED
FEBRUARY 28,

1966 1967 1968 1969 1970 1971 1972 1973 JULY 31 1974 1975

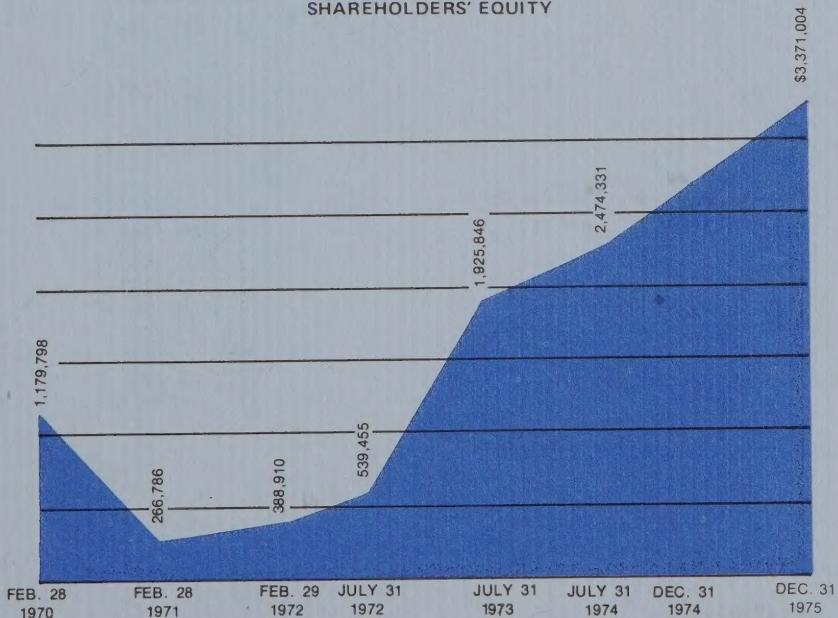
FIVE
MONTH
PERIOD
DEC. 31
1974

\$28,080,899

ANALYSIS OF SALES AND NET PROFIT AND LOSS



SHAREHOLDERS' EQUITY



KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Consolidated Balance Sheet

December 31, 1975 (with comparative figures for 1974)

ASSETS

Current Assets:

	<u>1975</u>	<u>1974</u>
Cash	\$ 49,841	398,968
Accounts receivable	2,620,529	1,749,900
Due from parent company, Steintron International Electronics Ltd.	—	27,672
Inventories	4,129,748	2,561,272
Marketable securities, at cost (market value \$32,701; 1974 – \$23,319)	31,079	31,079
Prepaid expenses	22,532	22,180
Property and equipment (Note 2)	<u>6,853,729</u> <u>370,343</u> <u>\$7,224,072</u>	<u>4,791,071</u> <u>296,275</u> <u>5,087,346</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Bank loan	\$ —	600,000
Accounts payable and accrued liabilities	135,354	1,234,449
Income taxes payable	854,217	614,087
Due to parent company, Steintron International Electronics Ltd.	<u>2,840,568</u> <u>3,830,139</u>	<u>—</u> <u>2,448,536</u>

Deferred income taxes

22,929 3,177

Shareholders' equity:

Capital stock:		
Common shares of no par value. Authorized 1,000,000 shares; issued 954,700 shares	2,064,399	2,064,399
Retained earnings (notes 3 and 6)	1,306,605	571,234
Commitments and contingent liabilities (Note 4).	<u>3,371,004</u> <u>\$7,224,072</u>	<u>2,635,633</u> <u>5,087,346</u>

See accompanying notes to financial statements.

ON BEHALF OF THE BOARD:

B. Tissler Director

R. W. Brown Director

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 1975 (with comparative figures for period ended December 31, 1974)

	<u>Year ended December 31, 1975</u>	Five months from August 1 to December 31, 1974
Sales	\$28,080,899	10,030,444
Cost of sales	<u>18,989,162</u>	<u>7,077,157</u>
Gross profit	9,091,737	2,953,287
Selling, general and administrative expenses (Note 5)	<u>7,565,366</u>	<u>2,516,985</u>
Earnings before income taxes	1,526,371	436,302
Income taxes	<u>791,000</u>	<u>275,000</u>
Net earnings	735,371	161,302
Retained earnings at beginning of period	<u>571,234</u>	<u>409,932</u>
Retained earnings at end of period (notes 3 and 6)	\$ 1,306,605	<u>571,234</u>
Earnings per share	<u>\$0.77</u>	<u>0.17</u>

See accompanying notes to financial statements.

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1975 (with comparative figures for period ended December 31, 1974)

Source of funds:

From current operations:

	Year ended December 31, 1975	Five months from August 1 to December 31, 1974
Net earnings	\$ 735,371	161,302
Add items not involving funds	<u>98,623</u>	33,982
	833,994	195,284
Funds provided from current operations		
Proceeds of sale of property and equipment	<u>26,600</u>	—
	860,594	195,284
Total funds provided		

Application of funds:

	Year ended December 31, 1975	Five months from August 1 to December 31, 1974
Purchase of property and equipment	<u>179,539</u>	105,421
Increase in working capital	<u>681,055</u>	89,863
Working capital at beginning of period	<u>2,342,535</u>	2,252,672
Working capital at end of period	\$3,023,590	2,342,535

See accompanying notes to financial statements.

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1975

1. SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation:

The consolidated financial statements include the accounts of the company and all of its subsidiaries:

Kelly's Stereo Mart Franchises Ltd.
Claude Crocker's Music Centre Ltd.
Trio Merchandisers Ltd.
Pro-Linear Acoustics Ltd.
International Discount Records Ltd.
Kelly's on Seymour Ltd.
Pro-Sound Distributors Limited

All material inter-company transactions have been eliminated.

Inventories:

Inventories of merchandise are valued at the lower of cost, on a first-in, first-out basis, or net realizable value.

Depreciation and amortization:

Depreciation has been recorded on the declining balance method at the following rates:

Fixtures and equipment	20%
Automotive equipment	30%

Additions and betterments are capitalized and expenditures for maintenance and repairs are charged to expense. When depreciable assets are retired or otherwise disposed of the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in earnings.

Leasehold improvements are being charged to earnings over a five year term.

Income Taxes:

The company follows the tax allocation basis of accounting for income taxes. Taxes deferred to future years as a result of claiming for tax purposes amounts different from those recorded in the accounts are

charged against current earnings and are recorded in the balance sheet as deferred income taxes. The timing differences relate primarily to depreciation.

2. PROPERTY AND EQUIPMENT, AT COST LESS DEPRECIATION:

	1975	1974
Fixtures and equipment	\$379,821	306,394
Automotive equipment	38,851	39,030
	418,672	345,424
Less accumulated depreciation	211,989	176,321
	206,683	169,103
Leasehold improvements, less amortization of \$236,373 (1974 – \$205,206)	163,660	127,172
	<u>\$370,343</u>	<u>296,275</u>

3. DIVIDEND RESTRICTION:

Under the terms of a demand debenture, held by the bank to secure outstanding bank loans, if any, the payment of dividends is restricted to \$15,000 per annum.

4. COMMITMENTS AND CONTINGENT LIABILITIES:

Commitments:

Approximate future annual lease rentals are as follows:

1976	\$454,000
1977	388,000
1978	316,000
1979	246,000
1980	155,000

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1975

Contingent liabilities:

The company has guaranteed the parent company's bank borrowings up to a maximum of \$1,400,000. The amount outstanding at December 31, 1975 was \$800,000.

6. ANTI-INFLATION ACT AND REGULATIONS:

The company is subject to the Anti-Inflation Act and Regulations which became effective on October 14, 1975. As a result, the company's ability to increase prices, profit margins, compensation and to pay dividends subsequent to that date is restricted.

5. INFORMATION ON STATEMENT OF EARNINGS:

The following amounts are included in selling, general and administrative expenses:

	Year ended December 31, 1975	Five months from August 1 to December 31, 1974
Depreciation and amortization	\$ 77,288	25,069
Interest	60,333	39,128
Remuneration of directors and senior officers, as defined by the British Columbia Companies Act	201,708	107,520

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Kelly-Deyong Sound Corporation Ltd. and subsidiaries as of December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Vancouver, British Columbia

February 27, 1976

Leat, Marwick, Mitchell & Co.

Chartered Accountants

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries

Financial History

(\$,000 Omitted)	Year ended Dec. 31/75	Five months ended Dec. 31/74	Year ended July 31/74	Year ended July 31/73	Five months ended July 31/72	Year ended Feb. 28/72	Year ended Feb. 28/71
Cash	\$ 50	\$ 399	\$ 147	\$ 369	\$ 144	\$ 45	\$ 4
Accounts receivable	2,621	1,750	1,523	624	445	351	238
Inventory	4,130	2,561	4,827	2,398	1,817	1,789	806
Marketable securities	31	31	31	—	—	—	—
Prepaid expenses	22	22	28	20	19	9	47
Due from parent company	—	28	—	—	—	—	—
Fixed assets	370	296	216	148	196	217	390
Deferred income tax	—	—	6	11	63	63	36
TOTAL ASSETS	\$ 7,224	\$ 5,087	\$ 6,778	\$ 3,570	\$ 2,684	\$ 2,474	\$ 1,521
Bank indebtedness	\$ —	\$ 600	\$ 1,300	\$ 750	\$ 700	\$ 700	\$ 390
Accounts payable & accrued liabilities	135	1,235	1,383	631	628	676	736
Trade acceptances payable	—	—	698	41	—	—	—
Income taxes payable	854	614	344	22	—	—	—
Due to parent company — Steintron International Electronics Ltd.	2,841	—	579	200	817	709	—
Deferred income taxes	23	3	—	—	—	—	—
Mortgage payable	—	—	—	—	—	—	128
TOTAL LIABILITIES	3,853	2,452	4,304	1,644	2,145	2,085	1,254
Capital stock	2,064	2,064	2,064	2,060	1,220	1,220	1,220
Surplus (Deficit)	1,307	571	410	(134)	(681)	(831)	(953)
TOTAL SHAREHOLDER'S EQUITY	3,371	2,635	2,474	1,926	539	389	267
TOTAL LIABILITIES & EQUITY	\$ 7,224	\$ 5,087	\$ 6,778	\$ 3,570	\$ 2,684	\$ 2,474	\$ 1,521
Sales	\$28,081	\$10,030	\$17,725	\$10,150	\$ 2,485	\$ 4,045	\$ 3,487
Cost of sales, selling, general and administrative costs	26,555	9,594	16,852	9,530	2,335	4,234	4,139
EARNINGS (LOSS) BEFORE UNDERTONED ITEMS	1,526	436	873	620	150	(189)	(652)
Taxes on income							
Current	791	266	439	259	70	—	(8)
Deferred	—	9	6	52	—	(39)	(27)
TOTAL TAXES ON INCOME	791	275	445	311	70	(39)	(35)
EARNINGS (LOSS) BEFORE EXTRAORDINARY ITEMS	735	161	428	309	80	(150)	(617)
Extraordinary items	—	—	117	237	70	272	(298)
NET EARNINGS (LOSS)	\$ 735	\$ 161	\$ 545	\$ 546	\$ 150	\$ 122	\$ (915)
PER SHARE DATA							
Equity per share	\$ 3.53	\$ 2.76	\$ 2.59	\$ 2.04	\$ 1.03	\$.74	\$.51
Earnings per share before extraordinary items	\$.77	\$.17	\$.45	\$.36	\$.15	(\$.28)	\$(1.19)
Net earnings per share	\$.77	\$.17	\$.57	\$.61	\$.29	\$.24	\$(1.76)
STATISTICAL DATA							
Number of shareholders	321	308	322	349	350	360	320
Common shares outstanding							
end of period	954,700	954,700	954,700	945,700	522,500	522,500	522,500
Number of employees	324	291	231	160	125	120	115

KELLY-DEYONG SOUND CORPORATION LTD.

and Subsidiaries .

Location Directory

GENERAL OFFICES

2145 West Broadway, Vancouver, B.C.

Telephone: (604) 736-7636

RETAIL LOCATIONS — KELLY'S STEREO MARTS

CORPORATE OWNED

540 Granville St., Vancouver, B.C.

2185 West Broadway, Vancouver, B.C.

2714 West Broadway, Vancouver, B.C.

1664 West Fourth Ave., Vancouver, B.C.

Oakridge Shopping Centre, Vancouver, B.C.

Park Royal Shopping Centre, West Vancouver, B.C.

601 Columbia St., New Westminster, B.C.

11801 - 100 St., Grand Prairie, Alberta

365 Portage Avenue, Winnipeg, Manitoba

122 Second Avenue N., Saskatoon, Sask.

22 Victoria Cr., Nanaimo, B.C.

648 Yates St., Victoria, B.C.

10068 Jasper Ave., Edmonton, Alberta

110 - 8th Ave. S.W., Calgary, Alberta

322 Yonge St., Toronto, Ontario

949 Granville St., Vancouver, B.C.

1662 Barrington Ave., Halifax, N.S.

110 Princess St., Kingston, Ontario

728 Yates Street, Victoria, B.C.

7 West Hastings, Vancouver, B.C.

6 - 33555 South Fraser Way, Abbotsford, B.C.

3 Yale Road East, Chilliwack, B.C.

1 - 14th Avenue South, Cranbrook, B.C.

1010 - 6th Avenue S.W., Calgary, Alberta

1812 Scarth Street, Regina, Saskatchewan

City Centre Mall, Elm St. East, Sudbury, Ontario

391 George Street, Peterborough, Ontario

171 North Christina Street, Sarnia, Ontario

228 King Street West, Kitchener, Ontario

242 Dundas Street, London, Ontario

356 Yonge Street, Toronto, Ontario

FRANCHISED LOCATIONS

605 No. 3 Road, Richmond, B.C.

10650 King George Highway, Surrey, B.C.

7303 Kingsway, Burnaby, B.C.

1760 Lonsdale, North Vancouver, B.C.

441 Bernard St., Kelowna, B.C.

3204 - 30th Avenue, Vernon, B.C.

129 - 3rd Avenue South, Port Alberni, B.C.

908A South Island Highway, Campbell River, B.C.

485 - 5th Street, Courtenay, B.C.

329 Main Street, Penticton, B.C.

3320 Portage Avenue, Winnipeg, Manitoba

701 Regent Avenue, Transcona, Manitoba

530 - 3rd Avenue West, Prince Rupert, B.C.

4604 Lakelse, Terrace, B.C.

1278 - 4th Avenue, Prince George, B.C.

535 Baker Street, Nelson, B.C.

1298 Bay Avenue, Trail, B.C.

Qwanlin Mall, Whitehorse, Yukon Territories

Centre Village Mall, Lethbridge, Alberta

10018 Franklin Avenue, Fort MacMurray, Alberta

631 - 2nd Street S.E., Medicine Hat, Alberta

109 King Street, Spruce Grove, Alberta

230 St. Pauls Street, St. Catherines, Ontario

508D Lawrence Avenue, Toronto, Ontario

784 Yonge Street, Toronto, Ontario

174 King Street West, Chatham, Ontario

ONE OF THE STEINTRON  GROUP OF COMPANIES

LITHO'D IN CANADA